
IOWA UTILITIES BOARD

Energy Section

Docket No.: RPU-2016-0003
Utility: Liberty Utilities (Midstates
Natural Gas) Corp d/b/a Liberty
Utilities (Liberty)
Memo Date: October 14, 2016

TO: The Board

FROM: Andrew McGrean (lead), Bob Bird, Leslie Cleveland, Barb Oswalt,
Jane Whetstone, Mary Whitman

SUBJECT: Staff Questions Regarding Application for Rate Case Increase

I. Background

On July 26, 2016, Liberty Utilities (Midstates Natural Gas) Corp d/b/a Liberty Utilities (Liberty) filed with the Board a proposal to increase its annual revenues by approximately \$1 million, or approximately 61.3 percent, pursuant to Iowa Code § 476.6 and chapter 26 of the Board's administrative rules. Liberty's application was identified as Docket No. RPU-2016-0003. Liberty made additional filings on August 26, 2016, and September 23, 2016, in response to a Board order in order to fulfill minimum filing requirements.

II. Legal Standards

Iowa Code § 476.6 governs applications for rate increases. Iowa Code § 476.6(3) specifies that at the time a public utility subject to rate regulation files an application for any new or changed rates, charges, schedules or regulations, the utility must also submit factual evidence and written argument in support of the application.

The Board's rules for rate increase applications are found at 199 Iowa Administrative Code chapter 26. Subrule 26.5(5) specifies the evidence that a utility proposing changes in tariffs or rate schedules relating to a general increase in revenue must include with its application. Subrule 26.5(6) requires the applicant to furnish any additional evidence required by the Board at any time after the filing of the proposed tariff.

III. Analysis

Staff has begun its review of Liberty's rate case application and has developed questions intended to clarify and supplement the record. The proposed questions cover the following general topics:

- Weather normalization.
- The impact of Liberty's decision to exclude a large contract customer from its cost-of-service study.
- Comparison of information filed in this docket to information filed in Liberty's annual report for 2015.
- Commercial customer information needed to evaluate the impact of proposed rate design changes.
- Capital structure.
- A gas transmission line project (the gate station project) proposed for recovery that is not currently in-service.

Staff provides additional background below regarding the first two topics.

Weather Normalization

On March 1, 2016, Liberty filed a waiver request addressing several issues including weather normalization. The Board granted the waiver request on March 25, 2016. Concerning weather normalization, Liberty stated:

Under 199 IAC §26.5(5)(e)(22), Liberty is required to file a schedule for weather normalization, including details of the method used in the weather normalization study. A weather normalization study and testimony may cost approximately \$20,000 - \$40,000. In light of Liberty's small Iowa customer base, approximately 4,000 customers, a weather normalization study is cost-prohibitive. In an effort to minimize the cost of conducting such a study, Liberty requests a partial waiver of 199 IAC §26.5(5)(e)(22) and requests that it be allowed to use the weather normalization information that it uses to compile its purchased gas adjustment ("PGA"). Because Liberty already performs a weather normalization every month when it files its PGA, use of the PGA weather normalization data for the test year, including all necessary heating degree-day (HDD) data and monthly therm sales by customer class, will allow Liberty to significantly reduce the cost of filing the Rate Case.

The requested waiver will not prejudice the substantial rights of any person and the production of such documents is not required by statute or any other provision of law. The weather normalization information in the PGA is generally the same as the information that would be obtained from a weather normalization study. Therefore, producing the weather normalization from the monthly PGAs filed during the test year will provide the Board with sufficient information to determine whether Liberty's proposed rate increase is just and reasonable. Further using the PGA weather normalization information will save Liberty's Iowa ratepayers significant expense. Therefore, the purpose of the rule (to provide information regarding weather normalization) will still be fulfilled. As such, a partial waiver of 199 IAC §26.5(5)(e)(22) will not prejudice the substantial legal rights of any person and equal protection of public health, safety, and welfare will be afforded to customers. Therefore, Liberty requests a waiver of 199 IAC §26.5(5)(e)(22).

Liberty witness Schwartz sponsors Liberty's weather normalization adjustment to revenues and consumption and references Exhibit JMS-3, Schedule 4 in direct testimony. This schedule provides actual monthly sales volumes for all classes, weather normalized volumes for the weather- sensitive customers and actual volumes by customer class for the 2015 test year. However, in its initial filing, Liberty did not provide the weather normalization model and inputs used to produce the results which are necessary in order to verify billing units. On August 16, 2016, the Board directed Liberty to provide the weather normalization spreadsheet containing the weather normalization model and inputs used to produce those results.

On August 26, 2016, Liberty provided the weather normalization documentation as directed. The documentation contains the results of the weather normalization model from Docket No. PGA-2015-0032 which is the annual forecast filing Liberty filed in August of 2015. The 2015 annual forecast filing produces weather normalized volumes based on actual sales volumes for the period June 2014 through May 2015. Staff does not believe that this information is in compliance with the portion of the waiver request concerning weather normalization. Staff believes that Liberty used the appropriate model, in fact it is the preferred weather normalization model; however, the model inputs should have been updated to include actual 2015 calendar year (test year) sales volumes. Additionally, the input heating degree days (HDDs) should have been updated to reflect finalized data. This information is readily and publically available on the State Climatologist's Web site.

The weather normalized sales data is used in multiple places throughout the docket (i.e. to derive the weather normalization revenue adjustment, in billing determinants, in the cost-of-service study, etc.) Use of the out-of-period weather normalized sales creates a mismatch between the other components of the case based on test year data. Staff's understanding of Liberty's waiver request is that Liberty sought permission to use a specific model, not permission to use outdated model results. If it was Liberty's intent to seek permission to use out-of-period billing units, Liberty had the opportunity and obligation to make that clear in its waiver request given that a change such as that is contrary to the "matching principle" which is an established regulatory construct. Therefore, staff recommends that the Board direct liberty to recalculate weather normalized sales based on actual test-year sales and updated HDDs, and to incorporate those results throughout its filing in place of the out-of-period units.

Exclusion of Large Contract Customer from Cost-of-Service Study

Liberty witness Lyons's direct testimony indicates that a large contract customer was excluded from the cost-of-service study. Liberty's filing also indicates that over 68 percent of Liberty's total throughput is associated with this customer.

Liberty states that "Since the special contract contains pricing terms that are not impacted by this proceeding, there is no customer class for the special contract and all revenues generated by the special contract are credited to the cost-of-service based on current margins." Staff is concerned that this approach does not result in a true cost-of-service analysis and may result in inappropriate cost shifts. Staff recommends that the Board direct Liberty to refile the cost-of-service study with the large contract customer included in the analysis.

IV. Recommendation

Staff recommends the Board sign the attached order requiring Liberty to provide answers to the questions applicable to the general topics discussed in the body of this memo and specifically included in the order within seven days of the date the order is issued.

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